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RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY
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C O N F I D E N T I A L MOSCOW 000907

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
DOE FOR HEGBURG, EKIMOFF
DOC FOR JBROUGHER
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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)

SUBJECT: (C) EXXONMOBIL CREDITS "RESET" WITH PASSAGE OF
SAKHALIN 1 BUDGET

REF: A. MOSCOW 424

[1](#)B. MOSCOW 266

Classified By: Acting Econ MC John Stepanchuk for Reasons 1.4 (b/d)

BUDGET APPROVED

[1](#)1. (C) Zeljko Runje, ExxonMobil's local Vice President in charge of Sakhalin 1, confirmed to us April 9 that the project's budget, after months of delays (reftels), has been approved by the GOR. According to Runje, field development that had been put on hold would be resumed and that about 2000 employees who had been laid off would soon return to work. He said the Authorized State Body (ASB, the entity charged with overseeing the project for the GOR) had "approved everything," including a 2008 budget supplement request, the 2009 request, and all cost overruns from 2003-2007. Runje said the ASB even approved about \$50 million of costs resulting from the delay in approving the budget and work plans. ExxonMobil is cautiously optimistic regarding the ASB's decision. "We're happy for now," Runje said, "but you never know what they'll hit you with tomorrow."

[1](#)2. (C) Runje said press reports indicating that the ASB was still expecting further explanations refer to a request by the ASB for the ExxonMobil-led Sakhalin 1 consortium to justify why the project pays many employees in Houston. Runje explained that the project, like nearly all of ExxonMobil's projects around the world, relies on constant consulting expertise from a Houston-based ExxonMobil engineering center which charges for those services.

"ABSOLUTELY, WITHOUT A DOUBT," DUE TO THE "RESET"

[1](#)3. (C) Citing his Kremlin sources, Runje said he believed the "foreign policy side of the Kremlin" had convinced President Medvedev to direct the Energy Ministry to move on the Sakhalin 1 budget. Runje repeatedly credited improved U.S.-Russian relations for the positive outcome, saying "there is absolutely no doubt" that the budget approval is due to the "reset." (Note: Per reftels, ExxonMobil had maintained that the Sakhalin 1 budget impasse was politically motivated. End note.)

COMMENT

¶4. (C) It would be difficult to know for sure whether Runje is correct in his assessment of the GOR's motivations in this case. Regardless, for the time being, the GOR appears to have done the right thing at the right time to prevent further damage to Russia's international image and to facilitate needed foreign investment.

BEYRLE